

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 26, 2013**

Public notice was posted on the Nebraska Public Meeting Calendar on January 8, 2013, and published in the Lincoln Journal Star on February 17, 2013. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Mr. John Conley
Treasurer Don Stenberg
Ms. Phyllis Chambers

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Mr. Jeremiah Garber, Nebraska Investment Council
Mr. Max Kotary, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Ms. Karen Rode, Hewitt EnnisKnupp
Ms. Shari Young, Hewitt EnnisKnupp
Mr. Jason Hayes, NSEA
Ms. Craig teDuits, State Street Bank

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:37 a.m. to 8:38 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE NOVEMBER 19, 2012 MEETING: 8:38 a.m. to 8:39 a.m. Mr. Maginn moved that the November 28, 2012, draft of the minutes of the November 19, 2012, meeting be approved as written. Mr. Dinkel seconded the motion. Ms. Werner-Robinson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel
	Ms. Werner-Robertson

ABSTAINING NOT VOTING:	Mr. Conley
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The motion carried.

COUNCIL MEMBER BUSINESS: 8:39 a.m. to 8:43 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson indicated that the NIC will continue its discussion of the appropriate rate of return. Ms. Werner-Robertson stated that Hewitt EnnisKnupp (HEK) is transitioning to a new private equity team. Members of the private equity team will be presenting at today's meeting. Mr. States indicated that HEK will be reporting on the 4th quarter performance at today's meeting.

4th QUARTER PERFORMANCE REPORT BY MAX KOTARY, HEWITT ENNISKNUPP: 8:43 a.m. to 9:32 a.m. Mr. Kotary reviewed the 4th Quarter 2012 Performance Review included in the meeting book, commenting on the economic and market environment. Mr. Kotary noted that at the end of calendar year 2012, the total assets under management for all plans were \$17.8 billion. Mr. Kotary's presentation included performance review, fund monitoring and risk budgeting.

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PRIVATE EQUITY PORTFOLIO UPDATE BY HEWITT ENNISKNUPP: 9:32 a.m. to 10:10 a.m. Ms. Karen Rode, head of HEK's private equity team, introduced Ms. Shari Young, Senior Consultant. Ms. Young, who has been with the firm since 2007, will be assuming the responsibilities previously done by Mr. Rob Parkinson, who recently left the firm. Ms. Rode indicated that Mr. Mike Sheran, Consultant, also a member of the private equity team was ill and would not be at today's meeting. Ms. Rode and Ms. Young reviewed the Private Equity Third Quarter 2012 Performance Report included in the meeting book. The report included a market overview, portfolio overview, fund performance, portfolio diversification, pacing update, and the 2013 tactical allocation plan.

The Council took a break and reconvened at 10:30 a.m.

OPPORTUNISTIC FIXED INCOME ALTERNATIVES BY MAX KOTARY AND JEFF STATES: 10:30 a.m. to 11:45 a.m. Mr. States indicated that as a follow-up to the DB/CBB Fixed Income Asset Class discussion at the August 23, 2012 Council meeting, the Council had requested HEK provide additional information on Cyclical/Transient fixed income opportunities. This would replace the two distressed mortgage investments PIMCO Distressed Mortgage Fund and the BlackRock Mortgage Investors Fund, which are winding down. Mr. Kotary's presentation, which was included in the meeting book gave an overview of cyclical opportunities currently available in the fixed income markets and profiled four managers/strategies for the Council's consideration. Following discussion by the Council, the Council requested presentations be made at the March 26, 2013, Council meeting on the PIMCO BRAVO II Fund and the Oaktree Real Estate Debt Fund.

OPERATING INVESTMENT POOL (OIP) UPDATE AND PERFORMANCE REVIEW BY JOE SPITZNAGEL AND JEREMIAH GARBER: 11:45 a.m. to 12:30 p.m. Mr. Spitznagel and Mr. Garber's presentation which was included in the meeting book discussed the OIP's performance through December 31, 2012. They reported that as of December 31, 2012, all of the investment functions for the OIP were transitioned to internal management. As of December 31, 2012, the Operating Investment Pool's balance totaled over \$3.3 billion.

The Council took a break and reconvened at 12:40 p.m.

STATE STREET BANK AND TRUST CUSTODY AND SECURITIES LENDING AGREEMENTS BY TREASURER STENBERG AND JEFF STATES: 12:40 p.m. to 12:53 p.m. Treasurer Stenberg stated that the contracts for Custodian and Securities Lending services with State Street Bank and Trust Company will end on June 30, 2013. The contract includes a provision permitting it to be extended for a maximum of two, two year periods. Treasurer Stenberg discussed the process used to determine if there would be a possible cost saving to the State from conducting an RFP at this time rather than extending the contract. Mr. States and HEK had provided information about fees paid by other clients of HEK for custody services and securities lending and it was determined that the current contract's custodian fees were very competitive. Mr. States indicated that the NIC's staff is very satisfied with the custodian services being provided by State Street Bank and Trust Company. Following discussion by the Council, Mr. Maginn made the following motion: I hereby move to consent to the extension and amendment of the Custodian Contract by and between the Nebraska State Treasurer and State Street Bank and Trust Company effective July 1, 2008 (the "Custodian Contract") as described in the letter from Craig teDuits (State Street) to Treasurer Stenberg dated February 12, 2013, and Amendment One to Custodian Contract (the "Amendment"). Pursuant to the Amendment, (i) the Custodian Contract shall be extended for period of 2 years, ending on June 30, 2015, unless extended again pursuant to the terms of the Custodian Contract, and (ii) the Fee Schedule attached to the Amendment reaffirms the prior Fee Schedule, except that it adds a new set of fees for new services provided by State Street as a result of Dodd-Frank requirements. The State Investment Officer is authorized and directed to execute any and all documents necessary in the discretion of the SIO to effectuate the extension and amendment of the Custodian Contract, including the Amendment. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Maginn
Mr. Dinkel
Mr. Conley
Ms. Werner-Robertson
Dr. DeFusco

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The motion carried.

STATE TREASURER'S REPORT: 12:53 p.m. to 1:05 p.m. Treasurer Stenberg reported that as of December 31, 2012, total assets were \$2.95 billion. Treasurer Stenberg indicated that the annual "Why I Want to Go to College" essay contest began in January and also discussed current legislation involving the Treasurer's Office.

NPERS DIRECTOR'S REPORT: 1:05 p.m. to 1:25 p.m. Ms. Chambers informed the Council that Matthew Effken was recently hired by NPERS as their legal counsel. Mr. Effken previously worked for Health & Human Services. Ms. Chambers reported that over 1,630 members of the Defined Contribution Plan (DC) elected to convert to the Cash Balance Benefit Plan (CBB). Over \$271 million was transferred from the DC to the CBB on January 2, 2013. Ms. Chambers stated that Ms. Elaine Stuhr was reappointed to the PERB and that Mr. Darrell Fisher has been appointed by the Governor as the State Patrol representative, their confirmation hearing was on February 25, 2013. Ms. Chambers also discussed current legislation that could affect NPERS. Ms. Chambers reported that Cavanaugh Macdonald Consulting LLC, was awarded the actuarial contract effective July 1, 2013.

ROBB EVANS & ASSOC. (RECEIVER FOR WG TRADING CO.) V. NIC: 1:25 p.m. to 1:30 p.m. Mr. Heinrich gave a report on the status of the case.

AUDIT COMMITTEE REPORT: 1:30 p.m. to 1:35 p.m. Dr. DeFusco stated that he had communicated with the Internal Auditor, Jan Westerman, via email last week. Dr. DeFusco stated that the Audit Committee will meet again next quarter with the Internal Auditor and report back to the Council at that time. A copy of the report is included in the attachments to the minutes.

AMENDMENT TO AGENCY AGREEMENT FOR MANAGEMENT AND INVESTMENT OF PERMANENT ENDOWMENTS WITHIN THE UNIVERSITY OF NEBRASKA TRUST FUND: 1:35 p.m. to 1:45 p.m. Mr. States discussed the proposed amendment relating to the payment of management fees. A copy of the amendment is included in the attachments to the minutes. Following discussion by the Council, Dr. DeFusco made the following motion: I hereby move to approve the Amendment to Agency Agreement for Management and Investment of Permanent Endowments within the University of Nebraska Trust Fund. The Amendment amends the Agency Agreement between the Council, the Board of Regents of the University of Nebraska and the University of Nebraska Foundation dated April 20, 2007. Pursuant to the Amendment, the management fee shall be re-defined and all other terms remain unchanged. The State Investment Officer is authorized and directed to execute any and all documents necessary in the discretion of the SIO to effectuate the Amendment. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn
	Mr. Dinkel
	Mr. Conley
	Ms. Werner-Robertson
	Dr. DeFusco

The motion carried.

STATE INVESTMENT OFFICER'S REPORT: 1:45 p.m. to 2:15 p.m.

Legislative Update: Mr. States distributed a listing of legislative bills and their status which may affect the NIC. A copy of the list is included in the attachments to the minutes. Mr. States indicated that the NIC's appropriation hearing was held on February 28, 2013 and that the NIC's annual report to the Legislature will be given on March 27, 2013. Mr. States reported that Mr. Conley's legislative confirmation hearing was held on February 25, 2013.

Agency Budget Update: Mr. States reviewed the Agency's January 31, 2013 Budget Report, which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

2013-2015 Biennium Budget Request: Mr. States distributed copies of documents related to the NIC's 2013-2015 budget request and reviewed the recommendation. Copies of the documents are included in the attachments to the minutes.

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Oppenheimer Fund Notice on Fee Change: Mr. States discussed the notice dated January 31, 2013, by Oppenheimer regarding the Oppenheimer International Growth Fund fee increase. A copy of the notice was included in the meeting book.

Securities Lending Quarterly Report: Mr. States discussed the report, which was included in the meeting book.

IMAs Executed Since Last Meeting: Mr. States reported that all open investment manager agreements were completed before the end of the calendar year and that the restructuring of the Non-U.S. Equity Portfolio structure has been completed.

Upcoming Staff Travel: Mr. States reported that it's the beginning of the private equity and real estate annual meeting and investment conference cycle. Staff plans to attend many of the advisory and annual meetings and upcoming conferences such as Ares, Rockwood, and that he will be attending the Mountain States Institutional Investors Forum on March 7, 2013.

Action Plan: The March 26, 2013 Council meeting will be at Lincoln's Marriott Courtyard Downtown, in the Scarlet North conference room.

PUBLIC COMMENT ON THE AGENDA: 2:15 p.m. to 2:16 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:17 p.m. Mr. Dinkel moved to adjourn the meeting. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Conley
Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn
Mr. Dinkel

The motion carried.


Kathy Dawes, Secretary